

PERAC AUDIT REPORT



Norwood Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2003 / PERAC 03: 10-073-13



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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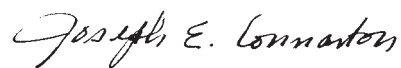
October 18, 2005

The Public Employee Retirement Administration Commission has completed an examination of the Norwood Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 2001 to December 31, 2003. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Martin J. Feeney and Mary Dundas who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Norwood Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

1. Cash:

- a. As reported in the last audit, the Treasurer does not reconcile the System's bank accounts. Of the four active accounts, one is reconciled by the Board's Executive Secretary, another is received with an automatically generated reconciliation, and the other two are not reconciled. The balance reported on the automatically generated reconciliation does not agree with that in the System's general ledger.
- b. A bank account maintained for the purposes of paying non-contributory retirees is not listed in the System's general ledger nor reported on its Annual Statement. At 12/31/03, this account had a balance of approximately \$69,000.
- c. There have been recurring errors in transacted deposit amounts. The Treasurer does not correct errors made when transferring funds in a timely manner. In some instances, years passed without corrections being made, leaving these errors as unreconciled items on the System's bank reconciliations.
- d. A review of the bank reconciliations for 12/31/03 revealed one account with eight items unpaid for more than six months. These outstanding items totalled approximately \$6,650.

Recommendation:

- a. The Treasurer has a fiduciary responsibility for the care and custody of retirement funds as outlined in G.L. c. 32, § 23(2)(a). Bank statements must be: reconciled to the System's general ledger monthly, reviewed by the Treasurer and the Executive Secretary, and approved by the Board at the subsequent meeting. The Treasurer must identify and correct any variances that currently exist.
- b. All bank accounts held in the name of the Norwood Retirement Board must be recorded in the general ledger and reported on the Annual Statement.
- c. The Treasurer must respond to Board notification of errors in the handling of the System's accounts. The Board may want to include such corrections on supplemental warrants, which the Treasurer is obligated to act upon, once duly voted and signed by the Board.
- d. Any uncashed items older than six months should be researched, so that the proper voiding and recording of these items can be completed.

Norwood Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response:

a. The Board agrees with the findings regarding the reconciliation of the System's bank accounts. The Retirement Board Secretary does perform the reconciliation on a monthly basis for the vendor account. However, the Treasurer's office does not reconcile the other three accounts with the Retirement Office. The Retirement Board has over the years written to the Treasurer advising him of his fiduciary responsibility as custodian of the funds. In all fairness to the current Treasurer he is fairly new to this position and the Retirement Board has advised him of his responsibilities as custodian of the Retirement System's funds. The Board has provided him with a copy of PERAC's draft audit outlining the findings and recommendations and has asked for his written response to said findings. According to the Treasurers response all bank accounts will be reconciled on a monthly basis with the Retirement Office. (see attached)

b. The Board also agrees with the finding that the Non-Contributory Retiree account is not listed in the System's general ledger nor reported on its Annual Statement. However, PERAC, as well as its predecessor, PERA, have been examining the Norwood Retirement System for years and this issue was never mentioned as a finding. It was the Boards understanding that since it is a Non-Contributory account it did not belong on the Annual Statement for the Contributory Retirement System since it is technically not an asset of the Retirement System. The Retirement Board will rectify the situation and include same in the General Ledger and on the Annual Statement of cash holdings.

c. The Board has requested that the Treasurer's Office respond to this issue of notification of errors and that corrections be made in a timely fashion. The Treasurer has indicated that he is not aware of any open items, however, there has been an ongoing issue of \$30.00 that the Retirement Office has been trying to get corrected since August 2004 that the Treasurer's Office is still researching. The Board will take PERAC's recommendation and place any corrections on a signed supplemental warrant thereby obligating the Treasurer to act on same.

d. The Board has requested that the Treasurer's Office review the statement for any uncashed items older than six months and advise the Board of those items. The Treasurer has indicated that he will provide a listing of outstanding checks on a monthly basis and the Retirement Office will then review the list and determine what, if any, action is to be taken regarding uncashed checks.

2. Minutes:

a. The Board does not hold Executive Sessions to discuss items that should not be accessible to the general public.

b. The Board does not receive monthly cash reconciliations and trial balances for review and approval.

Norwood Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation:

- a. After convening in open session, the Board should enter Executive Session to discuss any matters, such as disabilities, the details of which should not be available to the general public. Separate minutes of Executive Sessions should be kept and filed in permanently bound books.
- b. The Board should start receiving the monthly cash reconciliations and trial balances for review and approval. This will ensure that they are being completed and reconciled in a timely manner.

Board Response:

- a. The Board acknowledges that it does not always enter into Executive Sessions to discuss items that should not be accessible to the general public because the Board does not include dialogue of all the information discussed in its recorded minutes. The Board does, however, enter into Executive Session if anyone other than the Board Members or Staff is present at any meeting at which medical or sensitive information will be discussed. All minutes have been reviewed and the Board does not find any instances that if the minutes were released to the public would violate the public meeting law or the privacy rights of any member or retiree. The Board will, on a going forward basis, aspire to enter into Executive Session whenever there is to be a discussion of medical or sensitive information regarding any member or retiree.
- b. The Board agrees that it does not always receive monthly cash reconciliations and trial balances for review and approval at its monthly meetings but the Board does review the asset balances every month, which includes cash, fixed income and equity holdings as of the meeting date. The Board will, on a going forward basis, review the cash reconciliations and trial balances on a monthly basis.

3. Administration:

The Executive Secretary currently has an employment contract with the Norwood Retirement Board that classifies her as an independent contractor rather than an employee. This arrangement could be problematic and should be reviewed promptly by the Board.

Recommendation:

After reviewing the Executive Secretary's employment status, the Board should notify PERAC of its decision whether to classify her as an employee or continue to classify her as an independent contractor.

Norwood Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response:

The Board acknowledges that the Executive Secretary has an employment contract with the Norwood Retirement Board that classifies her as an independent contractor rather than as an employee. This arrangement has been ongoing for the past seven years and the Board has not encountered any problems nor has any been pointed out in any previous audits. The Board is, however, in the process of reviewing this arrangement to determine if any issues exist that would warrant a change of status. The Board will continue to investigate this issue thoroughly and advise PERAC of its decision regarding same.

Final Determination

PERAC auditors will follow up in six (6) months to ensure that the appropriate actions have been taken regarding all audit findings.

Norwood Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2003	2002	2001
Cash	\$854,833	\$3,077,374	\$940,491
Short Term Investments	0	0	0
Fixed Income Securities (1998 at book value)	0	26,265,562	29,706,598
Equities	32,886,525	22,448,220	28,368,793
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	15,055,214	12,206,971	15,338,064
Pooled International Equity Funds	12,118,331	9,117,800	8,558,463
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	27,273,087	0	0
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	0	0	0
Pooled Real Estate Funds	0	0	0
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	0	343,736	411,608
Accounts Receivable	387,874	55,418	193,077
Accounts Payable	(188,591)	(176,381)	(124,697)
TOTAL	<u>\$88,387,273</u>	<u>\$73,338,698</u>	<u>\$83,392,398</u>
FUND BALANCES			
Annuity Savings Fund	\$19,017,414	\$18,032,587	\$17,385,617
Annuity Reserve Fund	5,585,631	5,141,065	4,380,677
Military Service Fund	0	0	0
Pension Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	63,784,228	50,165,047	61,626,104
TOTAL	<u>\$88,387,273</u>	<u>\$73,338,698</u>	<u>\$83,392,398</u>

Norwood Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$16,315,413	\$4,115,781	\$0	\$522,173	\$0	\$64,665,010	\$85,618,377
Receipts	1,981,942	\$126,511	0	1,429,930	449,147	(610,319)	3,377,211
Interfund Transfers	(676,282)	675,179	0	2,429,690	0	(2,428,588)	0
Disbursements	(235,455)	(\$536,793)	0	(4,381,793)	(449,147)	0	(5,603,189)
Ending Balance (2001)	17,385,617	4,380,677	0	0	0	61,626,104	83,392,398
Receipts	2,099,146	130,487	0	1,468,146	484,150	(8,385,178)	(4,203,248)
Interfund Transfers	(1,223,580)	1,223,354	0	3,076,106	0	(3,075,879)	0
Disbursements	(228,596)	(593,453)	0	(4,544,252)	(484,150)	0	(5,850,451)
Ending Balance (2002)	18,032,587	5,141,065	0	(0)	0	50,165,047	73,338,699
Receipts	2,150,928	155,545	0	2,298,019	473,398	16,475,627	21,553,516
Interfund Transfers	(1,007,284)	1,006,148	0	2,857,581	0	(2,856,445)	0
Disbursements	(158,817)	(717,126)	0	(5,155,601)	(473,398)	0	(6,504,942)
Ending Balance (2003)	<u>\$19,017,414</u>	<u>\$5,585,631</u>	<u>\$0</u>	<u>(\$0)</u>	<u>\$0</u>	<u>\$63,784,228</u>	<u>\$88,387,273</u>

Norwood Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Annuity Savings Fund:			
Members Deductions	\$1,799,790	\$1,676,081	\$1,555,508
Transfers from other Systems	90,973	80,707	65,424
Member Make Up Payments and Redeposits	84,815	103,226	60,780
Investment Income Credited to Member Accounts	<u>175,349</u>	<u>239,132</u>	<u>300,229</u>
Sub Total	<u>2,150,928</u>	<u>2,099,146</u>	<u>1,981,942</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>155,545</u>	<u>130,487</u>	<u>126,511</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	89,640	91,216	92,577
Received from Commonwealth for COLA and Survivor Benefits	291,379	308,930	308,952
Pension Fund Appropriation	<u>1,917,000</u>	<u>1,068,000</u>	<u>1,028,401</u>
Sub Total	<u>2,298,019</u>	<u>1,468,146</u>	<u>1,429,930</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>473,398</u>	<u>484,150</u>	<u>449,147</u>
Sub Total	<u>473,398</u>	<u>484,150</u>	<u>449,147</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	89,332	2,278	43,688
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,938	2,267	3,552
Miscellaneous Income	5,736	553	0
Excess Investment Income	<u>16,378,621</u>	<u>(8,390,277)</u>	<u>(657,559)</u>
Sub Total	<u>16,475,627</u>	<u>(8,385,178)</u>	<u>(610,319)</u>
TOTAL RECEIPTS	<u>\$21,553,516</u>	<u>(\$4,203,249)</u>	<u>\$3,377,211</u>

Norwood Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001
Annuity Savings Fund:			
Refunds to Members	\$107,238	\$99,418	\$119,224
Transfers to other Systems	<u>51,579</u>	<u>129,178</u>	<u>116,231</u>
Sub Total	<u>158,817</u>	<u>228,596</u>	<u>235,455</u>
Annuity Reserve Fund:			
Annuities Paid	651,057	562,921	536,793
Option B Refunds	<u>66,070</u>	<u>30,533</u>	<u>0</u>
Sub Total	<u>717,126</u>	<u>593,453</u>	<u>536,793</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	3,270,483	2,817,525	2,663,706
Survivorship Payments	356,971	273,261	240,360
Ordinary Disability Payments	116,020	119,503	119,534
Accidental Disability Payments	810,583	775,169	811,680
Accidental Death Payments	462,840	468,953	461,880
Section 101 Benefits	47,543	45,512	45,924
3 (8) (c) Reimbursements to Other Systems	91,161	44,329	38,710
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,155,601</u>	<u>4,544,252</u>	<u>4,381,793</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	12,000	12,000	12,000
Salaries	37,016	37,409	35,814
Legal Expenses	5,252	0	1,161
Medical Expenses	0	0	0
Travel Expenses	2,620	5,331	3,490
Administrative Expenses	61,977	47,079	55,710
Furniture and Equipment	2,690	5,554	14,222
Management Fees	271,970	250,841	241,542
Custodial Fees	37,825	42,104	43,314
Consultant Fees	<u>42,048</u>	<u>83,833</u>	<u>41,895</u>
Sub Total	<u>473,398</u>	<u>484,150</u>	<u>449,147</u>
TOTAL DISBURSEMENTS	<u>\$6,504,942</u>	<u>\$5,850,452</u>	<u>\$5,603,189</u>

Norwood Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Investment Income Received From:			
Cash	\$26,508	\$27,937	\$83,232
Short Term Investments	0	0	0
Fixed Income	1,088,526	1,985,372	2,090,416
Equities	287,133	270,971	290,354
Pooled or Mutual Funds	123,407	95,053	134,202
PRIT Fund	0	0	0
Commission Recapture	19,200	21,239	26,401
TOTAL INVESTMENT INCOME	<u>1,544,774</u>	<u>2,400,572</u>	<u>2,624,606</u>
Plus:			
Increase in Amortization of Fixed Income Securities			
Realized Gains	2,000,321	1,048,600	2,297,292
Unrealized Gains	24,426,135	3,055,226	3,808,802
Interest Due and Accrued on Fixed Income Securities - Current Year	0	343,736	411,608
Sub Total	<u>26,426,456</u>	<u>4,447,562</u>	<u>6,517,701</u>
Less:			
Decrease in Amortization of Fixed Income Securities			
Paid Accrued Interest on Fixed Income Securities	(43,282)	(119,096)	(122,317)
Realized Loss	(568,219)	(3,866,161)	(1,441,262)
Unrealized Loss	(9,833,081)	(9,987,777)	(6,923,367)
Custodial Fees Paid	0	0	0
Consultant Fees Paid	0	0	0
Management Fees Paid	0	0	0
Board Member Stipend	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	(343,736)	(411,608)	(437,033)
Sub Total	<u>(10,788,318)</u>	<u>(14,384,641)</u>	<u>(8,923,979)</u>
NET INVESTMENT INCOME	<u>17,182,912</u>	<u>(7,536,507)</u>	<u>218,328</u>
Income Required:			
Annuity Savings Fund	175,349	239,132	300,229
Annuity Reserve Fund	155,545	130,487	126,511
Military Service Fund	473,398	0	0
Expense Fund	0	484,150	449,147
TOTAL INCOME REQUIRED	<u>804,291</u>	<u>853,770</u>	<u>875,887</u>
Net Investment Income	<u>17,182,912</u>	<u>(7,536,507)</u>	<u>218,328</u>
Less: Total Income Required	<u>804,291</u>	<u>853,770</u>	<u>875,887</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$16,378,621</u>	<u>(\$8,390,277)</u>	<u>(\$657,559)</u>

Norwood Retirement System
STATEMENT OF ALLOCATION OF INVESTMENTS OWNED
(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$854,833	0.97%	100
Short Term	\$0	0.00%	100
Fixed Income	\$0	0.00%	40 - 80
Equities	\$32,886,525	37.29%	40
Pooled Short Term Funds	\$0	0.00%	
Pooled Domestic Equity Funds	\$15,055,214	17.07%	
Pooled International Equity Funds	\$12,118,331	13.74%	10
Pooled Global Equity Funds	\$0	0.00%	
Pooled Domestic Fixed Income Funds	\$27,273,087	30.93%	
Pooled International Fixed Income Funds	\$0	0.00%	
Pooled Global Fixed Income Funds	\$0	0.00%	
Pooled Alternative Investment Funds	\$0	0.00%	
Pooled Real Estate Funds	\$0	0.00%	
Pooled Domestic Balanced Funds	\$0	0.00%	
Pooled International Balanced Funds	\$0	0.00%	
PRIT Cash Fund	\$0	0.00%	
PRIT Core Fund	\$0	0.00%	100
GRAND TOTALS	<u>\$88,187,990</u>	<u>100.00%</u>	

For the year ending December 31, 2003 the rate of return for the investments of the Norwood Retirement System 24.95%. For five period ending December 31, 2003 the rate of return for the investments of the Norwood Retirement System averaged 6.39%. For the nineteen-year period ending December 31, 2003 since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Norwood Retirement System was 11.01%

Norwood Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Norwood Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

November 1, 1989

20.07(9) Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

- (a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and
- (b) such trustees or general partners retain authority in the decision making process, and
- (c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

November 7, 1989

20.04(6) The portion of the portfolio that is invested in the MFS Lifetime Capital Growth Trust may include investments in foreign securities which are traded on foreign exchanges.

December 24, 1991

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

January 7, 1992

20.03(1) (a) Domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase.

(b) International equities shall not exceed 5% of the book value of the portfolio at the time of purchase.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on the United States stock exchange, traded over the counter in the United States, or listed and traded on the foreign exchange.

Norwood Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31,2003

October 6, 1994

16.02(3) The board may incur expenses for the investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Expenses for investment management and consulting services may be charged against earned income from the investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the total value of the fund for the first \$5 million; and
- (b) 0.5% of the value of the fund in excess of \$5 million.

October 27, 1994

18.02(4) **Rate of Return.** As statement of the rate of return objective for the entire portfolio which shall be to achieve a compound rate of return in excess of an index consisting of sixty percent of the Standard and Poors 500 Stock Index and forty percent of the Lehman Brothers Aggregate Index.

18.02(5) **Risk.** The expected level of risk for the equity portion of the portfolio expressed in terms of an annual average beta coefficient with 1.0 equal to market volatility which, for boards partially or wholly exempt from statutory investment restrictions pursuant to 840 CMR 19.05, shall be not less than .80 nor more than 1.20 as determined in accordance with the beta service approved by the Executive Director..

20.03(2) At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of the personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

Norwood Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31,2003

December 15, 1994

- 20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations for the calendar years 1994 and 1995.
- 20.07(6) Purchases and sales of equity investments shall not exceed 300% of the average market value of all equity holdings in any twelve-month period for calendar years 1994 and 1995.
- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period commencing calendar year 1996.

July 23, 1997

- 20.03(2) At least 20 % but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

January 9,1998

- 20.03(1) Equity investments shall not exceed 70% of the portfolio valued at market ,including international equities which shall not exceed 10% of the portfolio valued at market.

March 28, 2001

- 16.08 In accordance with PERAC Investment Guideline 99-2, the Norwood Retirement System may modify its fixed income mandate with David L. Babson to allow for opportunistic investment in high-yield securities up to a maximum of 10% of the total portfolio. Babson has been the system's fixed income manager for over six years. The Board and its consultant have examined and are satisfied with Babson's capabilities in the high-yield sector.

Norwood Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Norwood Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Norwood Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Norwood Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Norwood Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 31, 1984

Creditable Service	1. Service Credit for Employees on Provisional Basis. Employees who are employed on a full time regular basis and wish to receive credit for the time they spent on a provisional or part-time basis will be given credit for each month worked prior to becoming a full time regular employee. Any part of a month is to be considered a full month.
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Norwood Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONTINUED)

2. Part-time employees.

The minimum salary for acceptance of part-time workers into the Norwood Contributory Retirement System shall be \$1500.00 yearly. Anyone earning less than \$1500.00 will not be accepted as a member.

In each and every case concerning part-time workers the board shall determine what service credit shall be for each individual permanent part-time position. The basis for a full year's credit shall be 2000 hours.

The Board has determined that this policy on part-time workers shall apply to all parttime workers now in the system as well as those who join the retirement system in the future.

3. Police Traffic Supervisors and Cafeteria Workers.

Police Traffic Supervisors and School Cafeteria Workers shall receive a full year's credit for each year worked.

(Amended February 13, 1991. See Membership).

December 31, 1997

Make-Up Payments The minimum deduction regarding make-up payments would be no less than \$10.00 Per week, or \$500.00 per year.

July 7, 1986

Election Rules Sixty Day notice requirement for use in retirement board election.

February 13, 1991

Membership Any new hires must earn a minimum of \$5000.00 per year and work a minimum of twenty (20) hours per week to be eligible for membership into the Norwood Retirement System. (Traffic and Cafeteria Workers are exempt).

Norwood Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon Human Resources & Investor Solutions** as of **January 1, 2004**.

The actuarial liability for active members was	\$55,709,355
The actuarial liability for retired and inactive members was	50,316,868
The total actuarial liability was	106,026,223
System assets as of that date were	85,399,470
The unfunded actuarial liability was	<u>\$20,626,753</u>
The ratio of system's assets to total actuarial liability was	80.5%
As of that date the total covered employee payroll was	\$21,566,212

The normal cost for employees on that date was 8.0% of payroll

The normal cost for the employer was 7.0% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.0% per annum

Rate of Salary Increase: 5.5% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$ 85,399,470	\$ 106,026,223	\$ 20,626,753	80.5%	\$21,566,212	95.64%
1/1/2002	\$ 86,804,347	\$ 92,331,925	\$ 5,527,578	94.0%	\$20,777,071	26.60%
1/1/2001	\$ 87,599,463	\$ 86,111,142	\$ (1,488,321)	101.7%	\$19,809,847	-7.51%
1/1/2000	\$ 85,512,125	\$ 81,499,708	\$ (4,012,417)	104.9%	\$19,086,827	-21.02%

Norwood Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	3	10	9	7	13	6	9	12	22	11
Ordinary Disability	0	1	0	0	0	0	0	0	1	0
Accidental Disability	4	0	3	1	1	0	5	2	0	6
Total Retirements	7	11	12	8	14	6	14	14	23	17
 Total Retirees, Beneficiaries and Survivors	 342	 350	 351	 347	 344	 344	 342	 345	 346	 369
 Total Active Members	 444	 492	 499	 508	 518	 494	 503	 572	 563	 567
 Pension Payments										
Superannuation	\$2,233,765	\$2,257,242	\$2,398,897	\$2,357,168	\$2,446,489	\$2,474,204	\$2,573,672	\$2,663,706	\$2,817,525	\$3,270,483
Survivor/Beneficiary Payments	271,675	214,146	227,129	220,117	203,598	212,804	200,793	240,360	273,261	356,971
Ordinary Disability	94,223	104,425	109,983	111,783	103,628	116,732	120,676	119,534	119,503	116,020
Accidental Disability	570,254	600,842	619,112	589,650	615,559	643,700	755,746	811,680	775,169	810,583
Other	<u>368,312</u>	<u>383,105</u>	<u>432,971</u>	<u>444,599</u>	<u>461,862</u>	<u>467,314</u>	<u>527,107</u>	<u>507,804</u>	<u>514,465</u>	<u>510,383</u>
Total Payments for Year	<u>\$3,538,229</u>	<u>\$3,559,760</u>	<u>\$3,788,092</u>	<u>\$3,723,317</u>	<u>\$3,831,136</u>	<u>\$3,914,754</u>	<u>\$4,177,994</u>	<u>\$4,343,084</u>	<u>\$4,499,923</u>	<u>\$5,064,440</u>

PERAC

Five Middlesex Avenue | Third Floor

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac